

Report on the

1st Quarter 1999



		1999 Jan. - March	1998 Jan. - March
Sales	DM million	60.0	47.2
– IT/TC Marketing Segment		37.6	38.9
– Customer Care Segment		11.4	6.8
– Internet Providing Segment		7.8	1.2
– Online Marketing Segment		2.9	0.3
– Internet Participations Segment		0.3	0.0
Income from operations	DM million	0.1	8.8
– IT/TC Marketing Segment		7.8	7.8
– Customer Care Segment		1.5	2.1
– Internet Providing Segment		-6.8	-0.2
– Online Marketing Segment		-1.5	-0.6
– Internet Participations Segment		-0.9	-0.3
Extraordinary expenditure for capital increase/IPO	DM million	-0.2	-5.7
Net income	DM million	0.3	1.6
Cash flow	DM million	-1.0	4.8
DVFA result per share	DM	-0.12	0.76
DVFA result per share (after adj. for goodwill amortization)	DM	0.09	0.76



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MARKET DEVELOPMENT

As usual, the first quarter of 1999 was dominated by the world's largest computer fair – the CeBIT in Hannover – which takes place every year in March. With over 700,000 visitors (1998: 678,560), the fair once again broke its own records. The number of exhibitors was also up slightly to 7,341. This key fair of the IT and telecommunications sector reflects the importance of these industries for the global economy. The IT/TC sector in general continued to grow during the period. There were significant increases in sales of PCs, Internet access, online marketing and mobile phone products.

DEVELOPMENT OF 1&1 GROUP

In order to increase the transparency of our company reporting and take account of the growing significance of our Internet activities, we restructured our organization as of January 1, 1999. The former segments Value Added Internet Applications and Marketing Programs were divided into five new segments. The Marketing Programs segment was split up into IT/TC Marketing and Customer Care; the Value Added Internet Applications segment now consists of Internet Providing, Online-Marketing and Internet Participations. As of this quarter each of the five segments will post separate sales and earnings figures.

The 1&1 Group continued the positive development of 1998 into the first quarter of 1999. Group sales were up 27.1 % to DM 60.0 million. Growth was led by the Customer Care and Internet segments. At DM 11 million, sales of the Internet segments in the first quarter of 1999 almost equaled those for the whole of 1998 (DM 12.9 million) in these segments.

With respect to our new structure, announced in early February, we plan to keep sales and earnings stable in the IT/TC Marketing segment by establishing our own services and no longer increasing our marketing efforts for third party products. We expect growth to come increasingly from our Customer Care and Internet segments.

Against this backdrop, we succeeded in maintaining income from operations in the IT/TC Marketing segment at the year-before level of DM 7.8 million. Sales reached DM 37.6 million (1998: DM 38.9 million).

There was strong growth in the Customer Care segment. Sales climbed by 67.6 per-

cent on the same quarter last year from DM 6.8 million to DM 11.4 million. Earnings were dampened by investments for the further expansion of our new call centers in Maastricht (Holland) and Zweibrücken as well as by capital expenditures for our infrastructure. As a result, income from operations was down to DM 1.5 million (1998: DM 2.1 million).

There were also high growth rates in the Internet Providing segment. Sales in this area reached DM 7.8 million. Due to investments in new Internet products, marketing activities and the effect of at-equity stated companies on income, the income from operations in this segment fell as expected to DM – 6.8 million. The figure also includes a scheduled reversal of accruals amounting to DM 0.9 million (1998: DM 1.8 million).

Sales in the Online Marketing segment grew faster than overall sales to DM 2.9 million. Our investments in European expansion, however, led to an expected decline in income from operations from DM – 0.6 million to DM – 1.5 million.

In the Internet Participations segment, income from operations amounted to DM – 0.9 million. This figure was strongly influenced by companies stated at-equity and by depreciation allowances.

The overall sales and earnings figures were in line with company expectations.

CAPITAL EXPENDITURES

In the first quarter of 1999, we invested a total of DM 11.7 million in intangible and tangible assets. The major share was dedicated to our business enterprise center at the Multimedia-Internet-Park in Zweibrücken and the acquisition of Adnet AB, Sweden.

EMPLOYEES

The headcount grew from 776 in the first quarter of 1998 to 1,052 in the corresponding period this year. Of this figure, full-time staff increased from 525 to 759 and part-time staff from 251 to 293. The major share of this increase was of course in the Customer Care segment.

CASH FLOW DEVELOPMENT

Cash flow in the 1&1 Group for the first quarter of 1999 decreased by DM 5.8 million to DM – 1.0 million, measured on the US GAAP basis. The decline was due to increased activities in the Internet segments.

SEGMENT REPORTS

■ IT/TC MARKETING

Our two special exhibitions at the CeBIT 99 fair – “SOFTWARE-ZENTRUM MITTELSTAND” and “INTERNET-PARK” – were a resounding success. The “INTERNET-PARK” in particular recorded strong growth both in floor space (up 20 percent) and exhibitors (up 26 percent). Both exhibitions are already nearly fully booked for next year's fair.

Marketing activities for third parties showed good growth in the field of ISDN connections. We are now also the key partner in this segment for Deutsche Telekom AG.

■ CUSTOMER CARE

Customer Care services made very encouraging progress. In addition to several new customers and expansion of existing contracts in the field of technical hotlines, we also gained a number of interesting clients in the user-help-desk segment. Our new centers in Maastricht (Holland) and Zweibrücken got off to a promising start.

■ INTERNET PROVIDING

Our products and services in the Internet Providing segment also got off to a good start in the first quarter of 1999. By the end of the quarter, over 150,000 customers were already using 1&1's Internet services (end of 1998: approx. 90,000 customers).

The 1&1 PureTec product line (top-level domains, websites and Internet shops) gained over 10,000 new customers per month in the first quarter. In March 1999, 1&1 had a 30 percent share of all domains registered with DE-NIC.

There was cause for celebration in the first quarter when 1&1 was singled out by readers of the German computer magazine “connect” as the Internet provider of the year.

In time for the CeBIT fair, 1&1 began work on developing a network of multimedia partner agencies which will specialize in providing tailor-made solutions for small and medium-size companies at a local level. The hosting will be managed centrally by 1&1 subsidiary, Schlund + Partner AG.

In the field of larger-scale projects – websites and shops for the partners of large companies – 1&1 succeeded in signing a first general agreement with the German travel company TUI.

In late March, 1&1 successfully introduced a new tariff scheme for its Internet access service. Web surfing is now possible for as little as DM 0.04 per minute – including phone call charges. The service also offers clients such professional features as their own domain, up to 50 MByte of home page space and as many as 20 e-mail addresses. 1&1 Internet access also supports Unified Messaging Services such as the transferring of e-mails to fax machines, faxes to e-mail accounts and the reading of e-mails over the phone.

■ ONLINE MARKETING

1&1 AdLINK, Germany's leading independent Internet advertising agency, increased the number of Internet sites which it markets during the first quarter of 1999 and thus raised page impressions from about 40 million at year-end 1998 to approximately 55 million.

As part of the European expansion of our Internet advertising network, we acquired Sweden's leading online ad agency, Adnet AB, in February 1999. Together with our independent cooperation partners, 1&1 AdLINK Europe now handles over 250 million web page impressions.

At the CeBIT 99 we also launched a number of new products which are tailored to the needs of smaller companies. They include the web space exchange network, 1&1 BannerCommunity, as well as 1&1 KeywordContact, a joint advertising program for small companies to appear in search engines, and 1&1 RegioContact offering low-priced Internet advertising for regional companies.

■ INTERNET PARTICIPATIONS

Within our portfolio of Internet company participations, GMX (1&1 holding: 50 %) expanded its position as Germany's leading e-mail and messaging service. By the end of the first quarter 1999, GMX had gained almost one million customers.

As the Internet game service Player Network OGS GmbH & Co. KG (1&1 holding: 33.3 %) has not lived up to expectations, we plan to sell our interests in the company in the near future to one of the other partners.

Promising talks are currently being held with other possible participation candidates which will help us to exploit further interesting niche markets in the Internet sector.

SHARE CAPITAL INCREASE

In March we increased capital from the company's approved capital cum rights by raising capital stock from DM 13.2 million to DM 15.84 million. 528,000 bearer shares with a par value of DM 5 and full dividend rights for 1999 were issued and successfully placed on the market. The issue raised approximately DM 100 million for 1&1. These funds will be used to finance our European expansion in the Customer Care and Online Marketing segments as well as further growth of our Internet business.

OUTLOOK

The development of our Internet business led us to place further strong emphasis on

this segment in future. The market is currently being divided up and we aim to secure a healthy position for our future activities in this segment. In the coming months, we therefore plan to launch further all-in-one products for Internet and telephony services.

Our European activities in the Customer Care and Online Marketing segments – we aim to be present on 5 national markets by the end of 1999 – will add further impetus to growth during the coming nine months.

Overall, we can be satisfied with the development so far in 1999, which has been in line with our business plan for the year.

Consolidated income statement according to US-GAAP as of March 31, 1999 and 1998		1999	1998	Change in %
		Jan. – March	Jan. – March	
Net sales	DM	60,016,603	47,151,644	27.3
Cost of sales and services	DM	-54,050,715	-37,326,177	44.8
Gross margin	DM	5,965,888	9,825,467	-39.3
Selling, general and administrative expenses	DM	-5,443,028	-2,737,672	98.8
Other operating income/expenses	DM	1,997,341	1,994,481	0.1
Amortization of goodwill	DM	-974,700	0	
Operating income	DM	1,545,501	9,082,276	-83.0
Interest expenses	DM	-669,125	-420,211	59.2
Interest income	DM	286,144	113,861	151.3
Results from companies stated at-equity	DM	-1,099,165	0	
Income from operations	DM	63,355	8,775,926	-99.3
Expenses in connection with the IPO and capital increase	DM	-181,452	-5,740,979	
Income before taxes on income	DM	-118,097	3,034,947	-103.9
Income tax expenses	DM	0	-1,414,285	-100
Net income	DM	-118,097	1,620,662	-107.3
Minority interest	DM	419,503	0	
Net income after minority interest	DM	301,406	1,620,662	-81.4
but incl. general partner's share in result				
General partner's share in result	DM	-107,645	-648,265	
Income (for shareholders of the KGaA)	DM	193,761	972,397	

Consolidated cash flow statement as of March 31, 1999 and 1998	1999	1998	Change
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	301,406	1,620,662	(1,319,256)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,025,601	1,408,266	1,617,335
(Undistributed earnings)/unbalanced losses of associated customers	543,483		543,483
Changes in assets/liabilities			
(Increase)/decrease in own shares		1,000,000	(1,000,000)
(Increase)/decrease in accounts receivable	(1,290,371)	10,101,528	(11,391,899)
(Increase)/decrease in other assets	43,898	(589,280)	633,178
(Increase)/decrease in inventory	781,327	(681,207)	1,462,534
(Increase)/decrease in prepaid expenses	1,009,316	42,783	966,533
Increase/(decrease) in liabilities	(1,273,841)	598,925	(1,872,766)
Increase/(decrease) in advance payments	(6,929,581)	(4,923,636)	(2,005,945)
Increase/(decrease) in other accrued liabilities	(2,079,271)	(242,492)	(1,836,779)
Increase/(decrease) in accrued taxes	0	1,398,401	(1,398,401)
Increase/(decrease) in other liabilities	4,409,681	(3,206,095)	7,615,776
Increase/(decrease) in deferred income	456,274	(1,694,430)	2,150,704
Total adjustments:	(1,303,484)	3,212,763	(4,516,247)
Net cash provided by (used in) operating activities	(1,002,078)	4,833,425	(5,835,503)
Cash flows from investing activities:			
Capital expenditures	(11,664,568)	(4,262,858)	(7,401,710)
Investment in other financial assets	(615,000)		(615,000)
Disposal of fixed assets		243,837	(243,837)
Purchase of additional shares in investments	190,405		190,405
Net cash provided by (used in) investing activities	(12,089,163)	(4,019,021)	(8,070,142)
Cash flows from financing activities:			
Capital increase	103,267,824	31,929,487	71,338,337
IPO expenses	(3,511,058)		(3,511,058)
Issue of convertible bond	200,000		200,000
(Increase)/decrease in loans	48,722	(171,119)	219,841
Dividends paid		(3,920,000)	3,920,000
Paid in by minorities	(419,503)		(419,503)
(Repayment)/borrowings (to) from bank	(23,981,238)	1,824,189	(25,805,427)
Net cash provided by (used in) financing activities	75,604,747	29,662,557	45,942,190
Net increase/(decrease) in cash	62,513,507	30,571,512	31,941,995
Cash, beginning of year	7,293,154	2,778,473	4,514,681
Cash, end of 1st quarter	69,806,661	33,349,985	36,456,676